

from the previously agreed-upon list of goods to be exchanged. Payment is made by the debtor country through the switch specialist (less a fee) to the exporter.

## **GLOBAL COUNTERTRADE PERSPECTIVE**

The current and rapid developments in countertrade have their origin in the ten-fold increase in oil prices between 1973 and 1980, which saw the Western banking system awash with petro-dollars. All through the 1970s, these petro-dollars were recycled to East European and developing countries to finance industrial development projects (and in some cases, oil imports) with the end result that these countries were soon saddled with huge external debts. Towards the end of the 1970s, they started to experience difficulties in meeting their loan-servicing obligations. The precarious nature of their position was exacerbated by the dramatic increase in interest rates of the early 1980s, the concurrent global economic recession and the resultant drop in commodity prices. As commodity exports have been major generators of foreign exchange for many developing nations, the drop in prices further aggravated their situation.

As a result of these conditions, East European countries began, in the 1970s, to increasingly use countertrade as a practical way of generating some or all of their hard currency needs for new industrial projects. It was also seen as a way to foster exports to the West and to minimize the outlay of their hard currency. This concept, which was considered successful, was soon copied by a number of underdeveloped and developing countries.

Various press reports cite the amount of countertrade as being anywhere from 1 – 40 per cent of global trade, or somewhere in the vicinity of \$15 – 900 billion (US). The reasons for the tremendous variations in global estimates are caused by the lack of agreement on what constitutes countertrade, the lack of data on transactions and the secrecy that surrounds its practice. A conservative estimate of about 10 per cent of world trade, developed by Business International of New York, appears to be the most widely accepted figure.

Any full examination of global countertrade needs to be conducted on a regional basis. This would include the following factors:

- East-West countertrade between Organization for Economic Co-operation and Development (OECD) countries and East bloc countries;
- North-South countertrade between OECD and less-developed countries (LDCs) or newly-industrialized countries (NICs);
- South-South countertrade between LDCs and NICs;
- East-East and East-South countertrade between Eastern bloc countries and LDCs or NICs;
- North-North countertrade between OECD countries. This is not always recognized as countertrade since it is associated with military procurement.

The statistics of particular relevance to exporters pertain to the East-West and North-South countertrade. These statistics represented 20 per cent and 6 per cent of OECD exports to these regions, respectively, in 1984.

It is evident that numerous forms of countertrade are currently being practised for a variety of reasons. Participating countries (some 88 identified in a study conducted by the New York Foreign Trade Council) vary in their experience with, and results from, countertrade and are continually refining their policies or legislation to extract the maximum benefits (actual or perceived) from the practice. These changes in the direction and growth of countertrade, and the continuing indebtedness of developing countries, will ensure that countertrade will remain a dominant feature of global trade for the foreseeable future.

## **CANADIAN COUNTERTRADE PERSPECTIVE**

While countertrade may constitute 10 per cent of world trade, Canadian exports have been minimally affected to date. The key factors which have kept this impact minimal include:

- the dominance of the U.S. and other OECD countries as export markets for Canadian goods; and
- the predominance of food and raw materials in Canada's exports which, to date, have not been subject to extensive countertrade pressures.